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Report Highlights: 1998 Italian wine production increased 6% to 53.8 million hectoliters from 1997, although poor weather conditions resulted in poorer quality. Wine exports recovered slightly in CY 1997 to 13.9 million hectoliters, mainly due to expanded shipments of higher quality wines.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Italian wine production in 1998 is preliminarily estimated at 53.8 million hectoliters, or 6 percent more than last year, which had one of the lowest (but also among the best in quality) harvests of past decades. Weather conditions this year have not been favorable: a very hot and dry summer and intensive rains in September-early October combined to seriously affect both yields and quality (good). As with last year, the best wines were produced in the north-western regions, particularly typical red wines. Controlled appellation wines still represent a minority, or no more than 16 to 18 percent of total wine production, but with much higher shares in the north (over 60 percent in Piedmont and Trentino) and minimal production in the south.

Wine acreage continues the slow decline which began in the late 1970's because of EU regulations that provide incentives for uprooting vines. Current planted area is reported to be about 838,000 hectares. The acreage situation is now more stable and vine area is not expected to change dramatically in the near future.

The EU distillation programs, aimed at supporting growers' incomes, had been attracting much less wine in recent years compared to the past. In 1997/98, however, total distilled wine volume rose, mainly due to the EU decision to increase the maximum quantity eligible for "preventive" distillation.

The proposed revision of the Common Agricultural Policy for the wine sector has not yet been approved. The Italian wine industry has expressed some concern over the lack of aid for structural renovation, as well as for the proposed removal of the "preventive" legislation.

Domestic wine consumption, after the dramatic drop reported in the recent past, is now fairly stable. Bulk wine still accounts for most consumption, with bottle wine accounting for no more than 20 percent of the total.

Italian wine exports recovered slightly from their decline in CY 1997 to 13.9 million hectoliters, or 4 percent more than in 1996, mainly thanks to expanded shipments of bottled wines (40 percent in volume and 68 percent of value of total wine exports). The main destinations, as usual, were Germany (40 percent of the total), France (13 percent), the United States (11 percent in volume but 19 percent in value) and the United Kingdom (7 percent). Significant volumes were also exported to Switzerland, Canada and Japan.

U.S. wine imports into Italy are small and mainly limited to the higher quality wines. Quality U.S. wines are gaining a good reputation in Italy, with E&G Gallo winning the "Grand Prize" medal of honor at VinItaly, one Europe's major wine trade shows.

PSD Table						
Country:	Italy					
Commodity:	Wine					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		9/96		9/97		9/98
TOTAL Grape Crush	0	78,000	0	68000	0	72000
Begin Stock (Ctrl App)	0	7,737	0	9040	0	8000
Begin Stock (Other)	0	18,388	0	19131	0	17271
TOTAL Beginning Stocks	0	26125	0	28171	0	25271
Prod. from Wine Grapes	0	56322	0	49000	0	52000
Prod. from Tabl Grapes	0	0	0	0	0	0
TOTAL PRODUCTION	0	56322	0	49000	0	52000
Intra-EU Imports	0	417	0	1565	0	670
Other Imports	0	23	0	35	0	30
TOTAL Imports	0	440	0	1600	0	700
TOTAL SUPPLY	0	82887	0	78771	0	77971
Intra-EU Exports	0	10716	0	10300	0	11000
Other Exports	0	3318	0	3700	0	4000
TOTAL Exports	0	14034	0	14000	0	15000
Dom.Consump(Cntrl App)	0	6203	0	6000	0	6500
Dom.Consump(Other)	0	34479	0	33500	0	34000
TOTAL Dom.Consumption	0	40682	0	39500	0	40500
End Stocks (Cntrl App)	0	9040	0	8000	0	7000
End Stocks (Other)	0	19131	0	17271	0	15471
TOTAL Ending Stocks	0	28171	0	25271	0	22471
TOTAL DISTRIBUTION	0	82887	0	78771	0	77971

PRODUCTION

General

Italian wine production this year is still preliminarily estimated at 53.8 million hectoliters (MHL), or 6 percent more than last year's crop, which had represented the lowest level of the last 40 years (although one of the best, in terms of quality). Weather conditions this year have not been favorable, although the situation varies according to producing areas. Generally speaking, a very hot and dry summer negatively affected fruit development, and heavy rains during most of September and early October did not help the situation. Yields therefore remained on the low side compared to previous years, not only in terms of grape production, but also regarding the productivity of the grapes into wine. Sugar content is considered to be good, but the acid strength was poorer than usual. As a result, the average quality of the 1998 vintage is classified by most observers as "good" (on a scale which includes "poor", "medium", "good", "very good", and "excellent"), but with peaks of very good and even excellent in limited areas.

Like last year, the best wines were produced in the north-west, where, unfortunately, total production was lower than last year. In the Piedmont region, in particular, the quality of some red wines like "Barbera" and "Nebbiolo" is reported as excellent. Good to very good quality is also reported in some areas of Trentino, Tuscany, Marche and Sardinia, while in the remainder of Italy quality is classified, on average, as good. Significant increases, in terms of volume, have been obtained in the larger producing regions in the south, like Apulia and Sicily, where most of the production is represented by low quality table wines.

Wine grape production is present in all the twenty Italian regions. The following table shows the breakdown of wine production by region for the three most recent years for which official data are available.

			(1,000 hectoliters)
	1995	1996	1997
Piedmont	2,709	3,107	3,405
Lombardy	1,438	1,583	1,665
Trentino Alto Adige	953	1,251	1,001
Veneto	5,953	7,861	6,785
Friuli Venezia Giulia	1,086	1,200	1,018
Emilia Romagna	6,002	6,874	4,733
Other North	157	206	187
Total North	18,298	22,082	18,794
Tuscany	2,809	2,873	2,156
Umbria	969	919	740
Marche	1,946	1,747	1,815
Latium	3,207	3,267	2,940
Total Center	8,931	8,806	7,651
Abruzzo	3,856	4,440	4,184
Campania	2,115	2,066	1,971
Apulia	10,035	9,727	7,236
Other South	1,877	1,822	1,594
Total South	17,883	18,055	14,985
Sicily	10,391	9,017	8,073
Sardinia	698	584	1,062
Total Islands	11,089	9,601	9,135
Grand total	56,201	58,544	50,565

Sources: ISTAT ISMEA

As can be seen from the above table, in terms of volume, Apulia and Sicily are the leading producing regions followed by Veneto and Emilia Romagna. These four regions account, on average, for more than half of total wine production. Appellation of Origin wines (DOC wines in Italian) come from carefully delineated areas, have specific quality characteristics, and are subject to EU regulations. Currently, there are 284 DOC wines in Italy and 20 DOCG wines (Guaranteed Appellation of Origin), up from 277 DOC and 17 DOCG wines of last year.

The three new DOCG entries into the national list are represented by two red wines (Recioto di Soave produced in Veneto and Valtellina superiore produced in Lombardy) and one white wine (Gavi, produced in Piedmont). Many of the most valuable Italian wines are DOCG (i.e. Asti Spumante, Barolo, Barbaresco, Chianti, Brunello di Montalcino). While normal DOC wines can be sold at the retail level in containers of up to 60 liters, DOCG wines can only be sold in bottles of 5 liters or less and must have all the appropriate official identification marks. Despite these new entries, however, DOC and DOCG wine production in the most recent years have accounted for no more than 16 to 18 percent of total Italian wine production. This share varies considerably among the different producing regions, with the highest levels in Trentino Alto Adige (68 percent in 1996, the latest year for which data are available), Piedmont (60 percent), Friuli Venezia Giulia (57 percent), and Tuscany (44 percent). Minimal levels of these quality wines are produced in the South, with most of the production being classified as table wine.

Planted Area

As already reported in past years, Italian vine area has continuously declined in the last two decades, from the peak of 1.35 million hectares in 1978 to 838,000 hectares of 1997. The regions with the largest decline are Sicily, Tuscany, Sardinia and Apulia, while in the north the decline reported for table wine area has been partially offset by an increase of area planted to DOC and DOCG vines. A major reason for this declining trend was the EU legislation implemented in 1988 and extended to August 31, 1998, designed to grant special premiums to producers who uprooted all or a portion of their vineyards. The EU authorities had been forced to that program because generous EU subsidies lead to tremendous wine surpluses during the 80's, in countries like Italy, where vine area had extended to non-traditional wine producing zones. The situation looks now more stable and total vine area is not expected to change dramatically in the near future. In addition, new EU policy measures under discussion could establish a general prohibition of new vine planting up to 2010.

Distillation

As a result of the massive unsold stocks through the early 90's, the EU implemented large distillation programs to support domestic growers' incomes. In the most recent years, however, a sharp decline in domestic supplies, along with an improved market situation, has drastically reduced the total amount of distilled wine. The following table shows the quantity, in 1,000 hectoliters, of wine distilled in Italy under these programs during the last few years.

	1992/93	1993/94	1994/95	1995/96	1996/97
Support Dist.	10,096	6,015	3,305	916	4,022
Compulsory Dist.	5,252	7,240	333	185	630
Total	15,348	13,255	3,638	1,101	4,653

Source: ISMEA

As can be seen, in the last years, compulsory distillation in anticipation of surpluses was practically nonexistent, excluding minor quantities of wine obtained from the dregs of pressed grapes and other byproducts. In 1997/98, however, the distillation programs attracted a relatively larger quantity of wine despite the reduced size of the 1997 domestic crop. This was mainly due to the EU decision to increase the maximum quantity of wine eligible for “preventive” distillation from 15 to 25 hectoliters per hectare, with a total amount for Italy of 5.5 MHL. This change allowed those producers of lower quality wine who traditionally took advantage of the distillation program to sell larger quantities of wine than they had. The general expectation for the 1998/99 marketing year is for a volume of “preventive” distillation which could reach 4 MHL, according to our trade contacts.

Prices

Relatively short domestic supplies in 1997/98, along with reported excellent average quality of last year's vintage, positively affected the domestic wine market. According to ISMEA (the Market Research Agency of the Ministry of Agriculture), domestic prices in 1997/98 averaged between 5 and 10 percent higher than in the previous year. The new 1998/99 marketing year seems characterized by prices slightly lower than during the same period of last year, in line with the prospects of the 1998 vintage (larger volume but lower quality). Market prospects, however, will be also affected by the actual export prospects.

Production Policy

After years of discussions, the reform wine section of the Common Agricultural Policy (CAP), originally proposed by the EU Commission in 1994, has not yet been approved, mainly due to strong opposition from some member countries, including Italy. Last July the Commission submitted a new proposal, which is still under consideration by the member states. The Italian wine industry has expressed some concerns over individual points of the proposal, including: 1) the introduction of the “crisis distillation”, replacing the current compulsory distillation, to be applied in case of particular surplus situations; 2) the removal of the “preventive” distillation, considered by the Italian wine sector as an important support to the industry; 3) the lack of any actual aid for structural renovation of the wineries; and 4) the perceived less restrictive measures on imports of table wines from third countries, who have lower production costs.

CONSUMPTION

After the dramatic drop reported in the recent past, domestic wine consumption (excluding the quantities utilized for distillation and other industrial uses) has remained fairly stable between 34 and 36 MHL, or less than 60 liters per year, on a per capita basis (in the early 70's per capita consumption was over 100 liters). No more than 18 to 20 percent of total domestically consumed wines are controlled appellation wines, while the bulk is still represented by table wines. However, consumers are generally much more oriented towards quality wines than in the past.

STOCKS

Year-end stocks reported in the PS&D table are official estimates from Eurostat through 1996/97. As can be seen, stocks in 1997/98 are unofficially reported to be declining, in line with reduced domestic crop and stable exports.

INTERNATIONAL TRADE

The following tables show Italy's wine trade during 1994-96, broken down by wine class or country of destination/origin.

ITALIAN EXPORTS OF WINE, MUST AND VERMOUTH						
	QUANTITY (1.000 Hectoliters)			VALUE (Billion Lire)		
	1995	1996	1997	1995	1996	1997
DOC Wines	3847	3669	4019	1315	1560	1822
- in bottles	3320	3357	3665	1243	1486	1744
- in bulk	527	342	354	72	74	78
Sparkling wines	969	837	866	206	222	229
Other wines	10605	7694	8259	1175	1132	1142
Spumanti	1687	915	791	519	370	379
Total wines	17108	13415	13935	3215	3284	3572
Must	669	524	384	105	115	70
Vermouth	1130	1176	1060	238	243	224
Gran total	18907	15515	15379	3558	3642	3866

Sources: ISTAT, ISMEA

ITALIAN WINE EXPORTS BY COUNTRY OF DESTINATION						
	Quantity (1000 Hectoliters)			Value (Billion Lire)		
	1995	1996	1997	1995	1996	1997
Grand Total	17269	13415	13935	3241	3284	3572
France	4490	3071	2553	366	286	212
Germany	5660	5075	5536	1089	1174	1254
U.K.	1109	980	994	281	313	342
Belgium-Lux	299	231	236	64	60	62
Netherlands	239	227	250	64	69	81
Denmark	177	165	128	55	67	57
Spain	1327	128	26	106	12	8
Portugal	249	44	39	33	16	15
Austria	240	265	481	63	71	93
Other EU countries	254	220	277	78	81	87
Total EU	14044	10406	10520	2199	2149	2211
U.S.	1160	1224	1492	476	561	686
Switzerland	543	469	514	175	195	215
Canada	224	254	261	77	99	107
Japan	119	167	241	59	95	143
Russia	501	121	50	91	29	25
Poland	43	110	187	5	9	15
Czech Rep.	53	214	217	4	14	13
Other countries	582	450	453	155	133	157

Source: ISTAT

ITALIAN IMPORTS OF WINE, MUST AND VERMOUTH QUANTITY (1.000 Hectoliters)							VALUE (Billion Lire)
	1995	1996	1997	1995	1996	1997	
Total Wines	215	289	644	259	234	271	
- in bottles	62	62	114	39	41	52	
- in bulk	60	147	453	9	17	40	
- sparkling	20	21	18	8	10	8	
- champagne	63	51	52	200	163	167	
- other spumanti	10	7	7	3	3	4	
Must	75	3	509	6	1	25	
Vermouth	6	9	2	2	3	2	
Gran total	296	301	1162	267	238	298	

Sources: ISTAT, ISMEA

ITALIAN WINE IMPORTS BY COUNTRY OF ORIGIN						
	Quantity (1000 Hectoliters)			Value (Billion Lire)		
	1995	1996	1997	1995	1996	1997
Grand Total	215	289	644	259	234	271
France	110	150	227	220	188	206
Germany	19	9	10	3	3	4
Greece	0	12	36	0	1	2
Spain	7	43	287	3	7	26
Portugal	48	50	48	25	28	23
Other EU countries	3	10	4	3	3	3
Total EU	187	274	612	254	230	264
U.S.	3	2	2	1	1	1
Australia	1	0	1	0	0	1
Other countries	24	13	29	4	3	5

Source: ISTAT

As can be seen from the above tables, after the drop reported in 1996, Italian wine exports slightly recovered in 1997, both in volume (+4 percent) and value (+9 percent). This increase was mainly due to expanded shipments of bottled wines (+11 percent), which last year represented over 40 percent (in volume) and about 68 percent (in value) of total Italian exports. Exports of spumanti (sparkling wine), on the other hand, declined by 14 percent in 1997, following the trend of the previous years, consequent to the declined import demand from eastern European countries, as well as from other EU countries. Exports of bulk wines remained virtually unchanged, but their share, although declining, in 1997 was still 47 percent (in volume) and 15 percent (in value) of total shipments.

Italian shipments of controlled appellation wines (DOC and DOCG) rose by 9 percent (in volume) and 17 percent (in value), thus representing 29 percent (in volume) and 51 percent of the total. As a result, 1997 can be considered fairly satisfactory to the Italian wine export business, thanks in part to the a strengthened U.S. dollar (helping make Italian wines more competitive), but mainly to the increased quality of the shipments, although a large share of exports is still made up of cheap, low quality wines.

In 1997, Germany confirmed its leading position as the major destination for Italian wines, with about 40 percent and 35 percent respectively in volume and value of total Italian shipments. About half (in volume) of total exports to Germany are bulk wines, but bottled wines account for about two thirds of the total in value terms. Exports to France (the second destination in volume terms, with 18 percent of the total), almost exclusively represented by bulk wines, decreased by 17 percent. Export to the United States, the third destination country in quantity, rose by 22 percent in 1997. In value terms, the U.S. was the second largest outlet for Italian wines, absorbing about 19 percent of the total. This different classification between volume and value reflects the quality of the shipments; exports to France, as mentioned above, are mainly represented by bulk table wines, while about half of Italian shipments to the U.S. are represented by DOC wines and about 80 percent by bottled wines.

The export trend in the most recent months looks fairly stable compared to 1997: according to ISMEA Italian shipments totaled 13.4 MHL during September 1997-July 1998, or practically unchanged in terms of volume, but with an increased value of about 15 percent. The situation differs however, according to the individual destination countries. Exports to Germany, which continues to be the leading outlet of Italian wine, declined by 3 percent in volume and increased by 5 percent in value; shipments to France, on the contrary, declined by 25 percent in volume and 19 percent in value. Exports to the United Kingdom have slightly increased, while those to the United States have increased by 3 percent in volume and 17 percent in value.

Wine imports into Italy (which account for a negligible share of the total Italian wine market), usually are represented by prestige products (e.g. Champagne, Port and Sherry) from other EU countries. In 1997 however, imports more than doubled in volume, while rising by only 16 percent in value, due to dramatically increased imports of relatively cheap French and Spanish wines, attracted by the reduced domestic production and continued high domestic wine prices. This situation continued even in the most recent months: according to ISMEA during September 1997- July 1998 total Italian wine imports totaled almost 1.5 MHL, of which some 825,000 hectoliters coming from Spain and 385,000 hectoliters from France. Shipments from the United States remain minimal, totaling 2,157 hectoliters in 1997, virtually unchanged from 1996, but rising by 10 percent in value to 1,326 million lire (\$ 778,000). Quality U.S. wines are gaining a good reputation in Italy, with E&G Gallo winning the "Grand Prize" medal of honor at VinItaly, one Europe's major wine trade shows. A targeted promotional campaign could help long term development of U.S. wine exports to Italy, although prospects remain very limited, given the very strong competition from domestic wine production.

FOREIGN MARKET DEVELOPMENT

ICE (Italian Trade Commission), an agency of the Ministry of Foreign Trade, has traditionally been the main institution providing export promotion assistance in foreign markets. In the past, funds to promote Italian food and agricultural products, including wines, were allocated to ICE by both the Ministry of Agriculture and the Ministry of Foreign Trade. The allocation from the Ministry of Agriculture, which for wines was of about 10 billion lire per year, expired in 1996 and is not expected to be renewed in the same form as it was in the past. Current legislation gives basic authority on such issue to the 20 Italian regions. Each region, however, is autonomous in deciding if and how to allocate funds for foreign promotion.

Currently the situation is rather confused, as the role of the regions in export promotion is not completely clear. With the demise of funding for ICE, both the Ministry of Agriculture and the Ministry of Foreign Trade have included funds for foreign promotion in their budgets. The present allocation for the MinAg is of about 10 billion lire (\$5.7 million) for the promotion of the DOP (denomination of origin) products, including wines. These activities have to be coordinated with the regions, which can provide additional funds and are assigned to find the individual export companies, that must give their contribution to the general expenditures. In early December, 1998 a ministerial decree was signed by the Minister of Foreign Trade, including a three year (1998-2000) food and agricultural export promotion program. Total funds are of 21.9 billion lire (\$12.4 million), to be spent mainly in the U.S., Canada and Japan and channeled through ICE for foreign promotion.

The Ministry of Foreign Trade independently allocates between 1 and 1.5 billion lire per year (\$0.6/0.9 million), for wine foreign promotion. The scarcity of resources is compelling ICE to restrict its activities to financing trade teams to Italy (possibly co-sponsored by the local industry), organizing wine tastings and, when possible, participating in trade shows.